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SUBJECT: VIETNAM CONSULTATIVE GROUP MEETING

1. (U) Summary: The Twelfth Vietnam Consultative Group (CG) Meeting took place December 1-2, 2004 in Hanoi. Minister of Planning and Investment Vo Hong Phuc and World Bank Country Director for Vietnam Klaus Rohland co-chaired the meeting. A wide range of Vietnamese Government officials and representatives of all major bilateral and multilateral donors attended. The Ambassador and USAID Mission Director, Regional Development Mission/Asia Tim Beans co-chaired the U.S. Delegation. The Government of Vietnam (GVN) intends to maintain its economic path and to join the World Trade Organization (WTO) as soon as possible and is preparing to start drafting its next five-year plan. Donors called on the GVN to speed up financial sector and SOE reforms, improve transparency and accountability, reduce corruption and to seek to focus more on the quality of growth rather than on numerical targets. The donors also encouraged the GVN to reduce income disparity especially in regions such as the Central Highlands. Assistance pledges for the coming year totaled USD 3.4 billion, about USD 600 million higher than last year with USD 170 million due to exchange rate changes and about USD 100 million due to the inclusion for the first time of international NGOs in this year's CG pledge.

2. (SBU) In his meeting with delegation heads, Prime Minister Phan Van Khai stated that the private sector should become the engine of economic growth. He pledged to improve the business climate, reduce SOE advantages and decisively tackle financial sector reform. He also acknowledged that his government must improve the lives of Vietnam's ethnic minorities and support religious activities, lest these issues become threats to Vietnam's stability and economic growth. This CG was more useful than those in previous years because there were more signals that the GVN understands and is focused on making progress, but the donors must wait to see the results. End Summary.

3. (U) The Twelfth Vietnam Consultative Group Meeting took place December 1-2, 2004 in Hanoi. Minister of Planning and Investment Vo Hong Phuc and World Bank Country Director for Vietnam Klaus Rohland co-chaired the meeting. Led by Deputy Prime Minister Vu Khoan and Minister Phuc, the Vietnamese delegation included representatives from all major economic and policy agencies of the government and Communist Party along with representatives from mass organizations, research organizations and NGOs. Representatives of all major donors attended. They included 25 national aid agencies, the European Commission, the Asian Development Bank, International Monetary Fund, World Health Organization and the UNDP and its sister agencies. The Ambassador and USAID Regional Development Mission/Asia Mission Director Tim Beans co-chaired the U.S. Delegation.

Deputy Prime Minister Vu Khoan: Next Five-Year Plan

4. (U) In his opening remarks, the Deputy Prime Minister noted that fast and sustainable development coupled with poverty reduction was his government's top priority. He set the focus for the meeting by describing the GVN's plans for the Socio-Economic Development Plan (SEDP), 2006-2010 discussion and drafting of which will soon start. The Deputy Prime Minister said that the GVN intends to speed up GDP growth and SOE "rearrangement," to create a more favorable environment for all sectors, to use resources more efficiently, to ensure political and economic stability, to enhance global competitiveness and to move Vietnam out of poverty by 2010. He thanked donor countries and international organizations for their valuable support and stressed his government's intention to join the World Trade Organization (WTO) "as soon as possible."

Donors Voice Concerns

5. (U) In response, donors and NGOs were positive about

Vietnam's economic and social progress to date. They expressed continued support for the objectives and approach of Vietnam's Comprehensive Poverty Reduction and Growth Strategy. Donors emphasized the need for Vietnam to accelerate implementation of reforms in order to reach its full potential, to continue to reduce poverty and to alleviate emerging income disparities. They called on the GVN to improve the quality of growth, accelerate reform in the financial sector and SOEs, level the playing field for business, control corruption, enhance transparency, prevent excessive economic inequities, target assistance to disadvantaged areas, improve access to social services, strengthen civil society, improve human rights and protect the environment. Many donors underscored the need for a dynamic domestic private sector to boost productivity and the quality of economic development in Vietnam. Donors voiced support for Vietnam's WTO bid, but questioned Vietnam's readiness for WTO compliance and for global competition.

16. (U) The Ambassador emphasized that, in order to compete in the global economy, Vietnam must move toward a more open society. Protecting the free flow of information and freedom of expression are essential. Currently, Vietnam's economic performance, international reputation and attractiveness to foreign investors are all constrained by the limitations Vietnam places on the human rights and religious freedom of its citizens.

17. (U) The GVN representatives agreed with many of these concerns, but pushed back in a number of key areas. While acknowledging that quality and sustainability of growth are important, the GVN was not willing to relinquish its focus on the pace of growth. Deputy Prime Minister Khoan questioned the accuracy of the Ambassador's assessment of SOEs as a drag on economic growth. He emphasized the strategic role SOEs have played in advancing the economy and reaffirmed the GVN's political decision to retain state control over the economy while increasing its efficiency. On sharing the benefits of quality health and education services, the GVN representatives explained increasing commercialization of health and education as a way to have those "better off" contribute more to social services to compensate for the small budget available to provide services for all. DPM Khoan also said that Vietnam had enhanced the role of elected bodies such as the National Assembly and that the proliferation of newspapers reflected a more open society. However, he stressed that Vietnam will continue to move in this direction at a pace appropriate for its culture and unique conditions. He stated that Vietnam would take lessons from other countries and governments only where appropriate. To underscore this point, the Deputy Prime Minister noted that the permissiveness on drugs in the Netherlands was not suitable for Vietnam. He also emphasized that the GVN recognized it must focus now on financial sector reform.

IMF and World Bank Assessment

18. (U) The IMF representative noted that that Vietnam's macroeconomic situation was reasonably good, despite the rise in inflation to about 10 percent due to droughts and bird flu earlier this year. However, the rising trend in credit growth from 26 percent in 2003 to 36 percent in 2004, still propelled by loans to SOEs, was a cause for concern. He called on the GVN to move forward with SOEs and financial sector reforms, develop the private sector, to accede to the WTO and to increase government transparency.

19. (U) The World Bank's chief economist in Hanoi concurred with the IMF's generally positive assessment. He remarked on Vietnam's progress toward WTO accession and its efforts to reduce exclusion and improve governance. He identified two key challenges: whether Vietnam could implement WTO commitments and whether the National Assembly and ministries could pass laws and issue regulations necessary for WTO compliance on time. He called for longer or more frequent legislative sessions. The economist also echoed concerns of other delegations and representatives on maintaining focus on social development commitments, especially given the current pressure for economic development and international integration. One other continuing challenge would continue whether Vietnam had the political will and ability to address SOE and banking reform concerns, he added. The economist noted the limited progress the GVN has made in managing State budget assets. Although his assessment was that the problem had not yet become a crisis, he cautioned that postponing a solution would prove more costly in the future and could threaten recent gains in economic growth. He also noted that no country in history had sustained its economic growth unless there was also comparable growth in the quality of health and education.

10. (U) In response, Vice Minister of Finance Le Thi Bang Tam noted that budgetary transparency was important. She

pointed to recent shifts in SOE valuation methodology and the planned establishment of a state asset corporation as positive steps on SOE reform. She acknowledged the need for stronger oversight of capital markets in Vietnam.

Preparing the Next Five Year Plan

11. (U) As preparations for the next five Year Plan (SEDP) begin, the GVN also reported on the main findings of its second annual progress report of the Comprehensive Poverty Reduction and Growth strategy (CPRGS). MPI Minister Phuc said that the next socio-economic development plan would include a new system of using more qualitative targets and fewer quantitative ones. Besides economic targets, it would include targets for quality of life and human development. As such, the plan would have to incorporate targets set in the CPRGS. According to the GVN, the plan will be built from the bottom up and involve many rounds of consultation with stakeholders, including the private sector. Donors concurred and said it was essential for the next Five-Year Plan to shift from the production target-oriented approach of a planned economy towards the outcome-oriented planning and the broad-based participatory approach of a market economy. At the same time, they pledged to support Government's preparation of the next SEDP using CPRGS methodology. Donors supported addressing growing inequalities driven by ethnicity, location and gender. The Canadian representative noted that with 14 percent of the total population the Central Highlands had 30 percent of the population under the poverty line. Likewise the World Bank pointed out that of the 10 percent of children not in school, 46 percent of those were ethnic minorities.

Report from Vietnam Business Forum

12. (U) The CG also featured a report on the November 29 Vietnam Business Forum's issues of concern to foreign firms seeking to operate in Vietnam. Deputy Prime Minister Khoan attended this meeting as well. The list of issues is essentially the same ones that have been on the agenda for some years. Frustration among business representatives with lack of progress was evident. The message to the GVN is that most investors in Vietnam want to expand and many factors are attractive, but the lack of a transparent, adequate legal framework and sufficiently developed infrastructure are significant deterrents. Investors seek improved development and application of policies on fair treatment and reduced corruption. Local private businesses want access to credit and land and improved public administration. They also called for the improved behavior of parties in labor relations and better performance by local authorities in enforcing and applying new policies. The international business community seeks stiffer IPR penalties that will compensate owners of rights and trademarks, improved enforcement and access to an effective, fair judicial system. There was a strong pitch for the GVN to remove the three percent cap (Decree 105) on foreign employment. The Government responded that few enterprises were affected and that they have submitted an amended draft that provides for certain exceptions or waivers to small employers on a case-by-case basis. In addition, the Government noted that it was seeking infrastructure investment from abroad and was considering revisions to the 1993 BOT law. DPM Khoan called for the creation of a committee comprised of government, private sector, and donor representatives to explore improvements to Vietnam's infrastructure woes.

Corruption

13. (U) The CG featured a special session on Vietnam's fight against corruption. Frankly acknowledging the problem, the GVN representatives described recent initiatives to tackle corruption. The GVN and donors agreed that corruption increases the cost of doing business and that too often the poorest and most vulnerable members of society are the victims of corruption. Donors encouraged the GVN to use the diagnostic assessment currently being conducted for the Communist Party with Sweden's support as a basis for a coherent anti-corruption strategy. Donors suggested that elements of a solution to corruption issues in Vietnam would include: a comprehensive legal framework, public administration reform, transparency, accountability, a greater role for the media, SOE and financial sector reform, and a careful screening of policy lending. While acknowledging the GVN's commendable confirmation of corruption, donors opined that implementation would be difficult. Better transparency in public financial management, resource allocation, procurement, audit and inspection and fees and charges for public services, as well as on the essential role of a free press in fighting corruption would be key to progress, donors stressed. Both this effort and government's efforts at financial sector

reform would be reviewed at the CG's mid term review.

14. (U) On ODA effectiveness, donors complimented the GVN for its progress achieved in implementing the harmonization action plan. For some donors this has meant moving to more generalized budgetary support while for others, such as USAID, it has resulted in enhanced HIV/AIDS coordination and other common shared efforts. New ODA Decree 17 and the new ODA master plan should help facilitate aligning the ODA utilization with the new five-year plan.

HIV/AIDS: Coordination is Key

15. (U) The frank session on HIV/AIDS included admonitions from the donor community on the need to deal in a coordinated fashion with the growing epidemic. The UNAIDS Representative in Vietnam stressed the need for a multisectoral, supra-ministerial coordinating body to coordinate HIV/AIDS activities across ministries and donor-supported projects in Vietnam. She called for improved management of resources through collaboration of ministries including the Ministries of Finance, Health, Planning and Investment, and Labor, Invalids and Social Affairs. Besides a multisectoral coordination body, she said there was a growing need for a task force to monitor and evaluate government programs. She reiterated the crucial need for more proactive involvement of the highest level of government in a concerted campaign to fight stigma and discrimination at all levels of society.

16. (U) Following this a number of donors made interventions on HIV/AIDS. The United Kingdom representative noted the Government's overtaxed capacity to manage donor-supported programs, especially since they are all funneled through the Health Ministry. He urged the Government to consider adopting the United Nations 3-1s initiative, which calls for each country to have one coordinating body, one monitoring and evaluation system, and one framework to manage the epidemic. Representatives of Japan and Sweden stressed the importance of mainstreaming HIV/AIDS activities in all development projects as well as the increasing need to address stigma. The Australian representative said more participation of people living with AIDS was needed both in actual work and policy development in the National Strategy.

17. (U) The Ambassador endorsed the UNAIDS statement and key major points made by the UNAIDS coordinator. He also noted that Vietnam has a window of opportunity to make great strides in curbing the epidemic, but must mobilize all resources including civil society, involving both private and religious organizations to achieve the greatest impact. He also said that high-level leaders need to do more to counter stigma and discrimination. Given that the majority of cases of HIV are injecting drug users and sex workers, more focus should be on convincing men to change their behavior, he added. The UNDP representative advocated that Vietnam shift its messages away from scare tactics to more informative public messages that support people living with HIV/AIDS.

18. (U) In response, Vice Minister of Health Trong highlighted the relatively young epidemic in Vietnam and thanked donors for their assistance to curb stigma and discrimination. Noting that changing perceptions on HIV/AIDS takes time, he said that people with aids (PWA) are now viewed as people with a disease who should be taken care of by their communities. He noted that the GVN had assigned the Ministry of Health to provide treatment to PWA. The solid support the GVN is receiving from the international community is enabling them to develop treatment facilities in infectious disease departments of hospitals in Hanoi, Hue and Ho Chi Minh City. Although VM Trong's comments did not address the need for greater coordination across sectors, in his closing remarks Deputy Prime Minister Khoan told the donors that Deputy Prime Minister Nguyen Tan Dung is ready to meet with the donors on this subject. DPM Khoan also singled out the United States for special thanks for its help in combating HIV/AIDs.

WHO: Bird Flu Pandemic Warning

19. (U) The local WHO representative gave a presentation on why the World Health Organization expects that an influenza pandemic is likely to occur in the next few years when the avian flu virus changes to infect humans. The WHO representative's statements came along with public warnings from the WHO that same day throughout Asia. He offered dire predictions of the result when (not if) the pandemic comes. Various donors called for efforts to try to improve the ability of Vietnam to respond to such a situation.

Results of Pledging

120. (U) The final total assistance pledges came to USD 3.4 billion in assistance for the coming year, approximately USD 600 million higher than last year with USD 170 million due to exchange rate changes and about USD 100 million due to the inclusion for the first time of international NGOs in this year's CG pledge. Co-delegation head, Tim Beans, Director of the USAID Regional Development Mission/Asia led the U.S. delegation at this session and said that the United States planned to expend USD 61 million in support of Vietnam's efforts primarily in the areas of economic growth, HIV/AIDS, disabilities and the environment.

121. (U) In his closing remarks, the World Bank Country Director for Vietnam underlined that this meeting was taking place at a decisive juncture. In the next five years, Vietnam should have acceded to the WTO and completed its transition to a market economy, he said. With a diminished role for Government as a producer of goods and services, the GVN would instead focus more on strengthening the foundations of a market economy to encourage business development. The Government's role would be essential in areas where the market could not provide such as targeted poverty reduction programs, social protection, infrastructure development and ensuring a clean and safe environment for future generations.

Prime Minister Khai Meeting with Heads of Delegation

122. (SBU) The Heads of Delegation wrapped up this year's CG with a private meeting with Prime Minister Phan Van Khai. World Bank Country Director Rohland opened the 45-minute meeting by summarizing the results of the CG. (Inexplicably, Rohland failed to mention the HIV/AIDS discussion.) An obviously well-briefed PM Khai then took the floor. After thanking the donors for their generosity, the PM listed several other areas on which his government will focus. These included the quality of growth, human resource development (both within the government and the general population), and balancing environmental protection and economic growth. The GVN will expand its efforts to encourage the private sector to invest in Vietnam's education and health systems, he said. In addition, the PM acknowledged that his government must do a better job protecting and lifting up Vietnam's ethnic minorities and in providing room and support for religious activities. Otherwise, he warned, these issues may become threats to Vietnam's stability and economic growth. PM Khai promised to provide a level playing field for the private sector and foreign investors by eliminating the advantages now enjoyed by the state-owned enterprises. He declared that he wants the private sector to become Vietnam's primary engine of growth. He also promised that the GVN would move decisively to tackle the issue of financial sector reform in the year ahead. PM Khai closed by calling for donor support for Vietnam to host a major conference on combating the HIV/AIDS epidemic in 2005.

123. (SBU) Comment: This year's CG was more useful than those in previous years. Throughout the meeting, the GVN acknowledged that there are significant social and economic problems that it needs to address. However, we and the other donors will have to wait to see whether the GVN will translate this general understanding will be translated into effective policies. End Comment.

BOARDMAN